

Ohio Board of Regents

**SUMMARY Guidelines for Preparing
FY 2011-FY 2016 Capital Plans**

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SUMMARY Guidelines for Preparing FY 2011-FY 2016 Capital Plans

DRAFT - Table of Contents - DRAFT

I.	Introduction	Page 1
II.	Overview: The Fundamental Rationale of the State's Capital Funding System	Page 2
III.	Implications of the Capital Funding System For Campus Capital Plans	Page 5
IV.	The Use of State Capital Appropriations By State Colleges and Universities	Page 7
V.	The Continuing Need for the Submission of Capital Plans.....	Page 8
VI.	Capital Request.....	Page 9
VII.	Filling in Project Request Forms in HEI.....	Page 11
	Appendix A – Use of Basic Renovations Guidance.....	Page 12
	Appendix B – General Definitions	Page 14
	Appendix C – Description of Types of Capital Projects	Page 16

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

I. INTRODUCTION

This document provides a summary of the guidelines to prepare FY 2011-2016 Capital Requests in response to the Office of Budget and Management's (OBM's) accelerated planning schedule. We are providing this summary to give campuses the minimum information needed to prepare their requests for Regents staff. Agency requests are due to OBM by February 26, 2010.

In response to OBM's accelerated schedule, we will not request the level of detail that would normally be provided in a traditional Six-Year Capital Plan. We hope to provide campuses with an amended guidance document and the opportunity to provide a detailed narrative at a later date.

Campuses will note a change in terminology specific to debt service allocations. In past cycles, Regents staff would provide a campuses debt service allocation as available **Capital Component** funds. Beginning this cycle, Regents staff will provide debt service allocations as available **Major Renovations** funds. This change reflects our continuing emphasis on the use of state capital funds for renovations or building replacements that do not result in the addition of new space.

In order to respond to OBM's schedule in a timely manner, the Regents deadline for both HEI project submissions and request forms is **FEBRUARY 19, 2010**.

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

II. OVERVIEW: THE FUNDAMENTAL RATIONALE OF THE STATE'S CAPITAL FUNDING SYSTEM

In 1995 the State of Ohio adopted a fundamental change in its approach to capital investments in higher education. Prior to 1995, planning for the academic capital needs of our campuses was a centralized state function, with state agencies being principally responsible for deciding what improvements would be made, where they would be made, and at what cost. A list of approved projects would appear in the biennial capital bill and would be financed from the sale of state higher education improvement bonds, which would be retired from state debt service appropriations made to the Board of Regents in the operating appropriations bill. Campuses had every reason to try to maximize the funding they received in the capital bill, even if the result of every campus's efforts was an aggregate level of capital spending - and consequently a level of debt service payments - greater than anyone would want.

The system, as established by Ohio Administrative Code 3333-1-31, provides campuses with state capital support principally through a formula that determines each campus's share of available debt service equivalent. Campus shares are determined by a formula that gives equal weight to the volume of educational activity on a campus and the age of campus academic facilities. The educational activity is principally credit instruction, but job-related noncredit instruction and sponsored research are also recognized. The age of facilities is measured by tabulating the number of square feet of Instructional and General space that is at least twenty years old, with space older than twenty years being weighted more heavily. From a campus's share of this formula allocation we subtract an amount equal to the debt service the state will pay for the new capital appropriations made for the campus in 2010 in the state capital bill. We anticipate that the debt service cost will be about seven percent of the amount of the appropriation for twenty years. For example, under this revised formula, the debt service equivalent of a \$1,000,000 capital appropriation will equal about \$77,000 per year for the next twenty years¹. (This calculation will be periodically updated to reflect any changes in the maturity or rates paid for bonds sold by the state.) When the result of that subtraction is negative, the difference is deducted from a campus's State Share of Instruction allocation. When the result of the subtraction is positive, the difference is appropriated to the campus in the Major Renovations (previously known as Capital Component) line item in the subsequent operating budget.

In this system, the state continues to provide its support for capital investments that are required by our campuses, but the campuses have a new responsibility as well, since in a very real way they are required to pay for those investments. We believe that this responsibility is an empowering one. Since campuses assume responsibility for "financing" their improvements, their decisions about what they require have a new legitimacy. Prior to

¹ In earlier capital cycles, 10 percent of the appropriation had been deducted for 15 years. This deduction equaled debt service payments for 15-year bonds sold at 5%, which was the maturity and interest rate of bonds that were sold at that time by the state. The state has since shifted the terms of its bonds to 20 years, and interest rates have been around 4.5 percent. Therefore, the deduction has been revised to reflect the new maturity dates and interest rate.

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

the adoption of the 1995 funding plan, the state often rejected more than half of the amounts requested by campuses. Since the adoption of the 1995 plan, Regents staff has had success incorporating nearly every dollar that every campus requested that would be subject to this new policy. Responsibility for rationing had been shifted to the campus. Now those who are in the best position to judge the true value of capital improvements on a campus (the Board of Trustees and the officers they appoint) are the ones who have the principal voice in deciding what will be built.

The allocation of debt service equivalent and the deduction for "debt service" begin one year after the capital bill has become effective. As we begin a new capital cycle, we look forward to the next operating biennium, which we anticipate will have a Major Renovations appropriation reflecting eight rounds of support, from capital appropriations made in 1996, 1998, 2000, 2002, 2005², 2006, 2008, and to be made in 2010.

Some projects that campuses had requested (thereby indicating a willingness to pay for them through the mechanism of this new system) were reduced or even eliminated in order to keep within the state's debt capacity limits. However, up until the passage of H.B. 675, the state did agree to keep debt service equivalent allocations at the level required to offset, in the aggregate, all of the deductions that would have been imposed had all of the Board of Regents' proposals been adopted in the capital bill. While it would have been preferable to have had the capital appropriations we had sought (since the state can borrow at lower rates and with smaller issuance costs than can our campuses), the state's willingness to maintain debt service allocations at requested levels provided a promise of stability in state support for campus capital needs independent of the state's ability to finance all of those needs through state debt.

Flexibility Option

Recognizing state higher education capital appropriations are not sufficient to fund all identified needs at many of our campuses, OBM implemented a new policy in FY 2007–2008 that offered flexibility to each campus regarding the use of Basic Renovation and Instructional & Data Processing Equipment allocations. For the first time, campuses could request amounts less than their Basic Renovations allocations in favor of increased capital appropriations or, conversely, request a lower amount for their capital appropriations in favor of additional Basic Renovations or Instructional & Data Processing Equipment funding.

As implemented in FY 2007–2008, if a campus chose to exceed its debt service equivalent allocation under the flexibility option, the funds would come from either: 1) the Basic Renovations or Instructional and Data Processing Equipment allocation, which is considered free from debt service; or 2) a Major Renovations request in excess of the debt service allocation, resulting in a debt service charge greater than the formula allocation. If a campus chose to exceed its Basic Renovations or Instructional and Data Processing Equipment, the funds would come from either: 1) shifting existing formula allocations of either the Basic Renovation or Instructional & Data Processing Equipment; or 2) the

² The FY 05-06 capital bill was delayed by seven months and was not passed until early 2005.

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

campuses debt service allocation.

The FY 2011-2016 Summary Guidelines anticipate the flexibility option will be available to campuses this planning cycle.

DRAFT

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

III. IMPLICATIONS OF THE CAPITAL FUNDING SYSTEM FOR CAMPUS CAPITAL PLANS

The 1995 capital funding system provides incentives for a very different approach to the development of campus capital plans. As a reminder, here are some ideas to consider.

Carefully plan before committing to a construction appropriation.

Thoughtful prior planning is absolutely necessary. Campuses should take the time to consider whether there are less expensive alternatives to meeting their facilities needs. Can utilization of existing facilities be improved? This might be done through more effective scheduling of current classrooms or laboratories. Alternatively, it might require the renovation of existing space to allow it to be used more effectively. There are consulting firms that offer advice on such matters. Some campuses have the required analytical capacities on their own staffs. It is not important who does the analysis, but it is very important that the analysis be done so that a campus is confident that it understands its facilities needs before it begins the architectural work on a project. We would support the use of a state capital appropriation to pay for the work of outside consultants to answer these questions.

There is a second aspect to the advice to do good planning first. In most cases, campuses requesting funding for a major project should seek a modest appropriation for architectural planning one biennium before it seeks a construction appropriation. The reason for this is that campuses begin having deductions taken from their debt service allocation in the year following the capital appropriation, even if the appropriation is not spent for several years. The general rule for campuses to follow is this: do not seek any capital appropriation that is subject to the new policy unless it seems highly likely that the appropriation can be obligated in the biennium for which the funding is requested. In the past, we have identified several cases in which plans requiring a substantial over-commitment of a campus's debt service allocation could be implemented without significant delay within the amounts provided by the formula simply by delaying the timing of the construction appropriations to the biennium in which contracts were likely to be let. In this system, as in life, time is money.

Consider alternative ways of financing equipment purchases.

This capital funding system matches the payments made from a campus's debt service allocation to the debt service obligation the state incurs by selling bonds to finance the project. In general, Ohio now sells its bonds for 20-year terms. Campuses may seek funding for substantial amounts of equipment as part of their own requests (either as a component of a construction project or as a separate line), but they should consider alternative methods of financing the purchase that would not create a 20-year obligation. These alternatives might include direct expenditures from the Major Renovations appropriation or local debt structured to be retired during the useful life of the equipment.

Keep in mind the operating budget implications of your capital plans.

There are times when a campus must expand its facilities significantly if it is to accomplish its mission more effectively, but the benefit of expansion must be weighed against its cost. Not only does a major new construction project generate a substantial debt service

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

deduction, it also creates a series of longstanding operating budget commitments for utilities, building upkeep, and staffing. These commitments might be justified by the improvements or expansion in service that they permit. Nevertheless, a prudent campus will create these commitments very cautiously. In this regard, it is important to remember that a change in the instructional subsidy formula for plant operation and maintenance costs means that the construction of additional square footage no longer leads automatically to an increase in state operating support. While campuses will receive plant support on the basis of the higher of two calculations (one based on activity and the other based on square footage), the square footage used in those calculations will not include new construction funded in the 1996 or later capital bills.

DRAFT

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

IV. THE USE OF STATE CAPITAL APPROPRIATIONS BY STATE COLLEGES AND UNIVERSITIES

General Rule

State capital appropriations provided to state colleges and universities through the Board of Regents capital recommendations process – which includes Major Renovations, Basic Renovations, and Instructional Equipment formulas – are generally intended to be used for Educational and General (E&G) purposes. These purposes include facilities and facility infrastructure that are used for or enable instruction, academic support, plant operations and maintenance, student services, institutional support, public service, and research. Auxiliary operations, such as residence and dining halls, bookstores, parking garages, student recreation centers or unions, intercollegiate athletic facilities, hotels, hospitals and the like, are expected to be self-financed from user fees, private gifts, or other sources of funds. Portions of auxiliary facilities used for E&G purposes may be supported by state funds, provided that such use is documented to the Regents in the campus' capital request and that the portion funded by the state is roughly proportionate to the portion of the facility used for E&G purposes.

Exceptions to the Rule

Exceptions to this general rule are expected to be rare, and will be reviewed on a case by case basis. The conditions under which such approval may be granted include instances where a campus has experienced a significant and unpredictable loss of auxiliary facilities that threatens campus viability, or for purposes related to public health or safety. In addition, this rule does not apply to state capital appropriations that are provided outside of the Regents-approved process. So-called "community projects" or other legislative additions to the Regents capital recommendations will be subject to whatever provisions the legislature establishes in making the appropriation.

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

V. THE CONTINUING NEED FOR SUBMISSION OF CAPITAL PLANS

With the Board of Regents' intent to continue the decentralization of decision-making to the campus level, one might reasonably wonder why there is a continuing need for a capital plan submission at all. It is a fair question. Several reasons remain for requiring the submission of a plan.

The formal process has not changed.

The Board of Regents continues to make recommendations to the Governor and the General Assembly, capital bills are still enacted with specific projects listed for each campus, state bonds are still sold to finance those projects, and a debt service appropriation still appears in the operating bill to retire the bonds. Those involved in each step of the process reasonably require an understanding of the projects campuses are planning, the reasons those projects are needed, and the larger context in which specific project decisions are being made. Legislators should not be asked to vote for a capital bill if information on the projects contained in the bill is unavailable. The capital plan is the most opportune vehicle for sharing with state government the thinking of a campus about its capital needs and its strategy for addressing those needs.

The state wants to know how campuses are exercising their capital responsibilities.

Since the state has given campuses the authority and responsibility for capital decisions, it wants to know how campuses are approaching their responsibilities. Campuses, in turn, have an obligation to update the state on how they are approaching their responsibility

- **New Construction.** If a campus is proposing new construction, the state wants to know why the campus believes the new facility is necessary. Is it to replace existing space? If so, what consideration has been given to rehabilitating that space rather than constructing new? Is it to expand the physical plant? Why is expansion of the physical plant necessary? What thought has been given to better utilization of existing space as an alternative? What plans have been made to deal with the operating costs of running a larger plant? **In order to ensure that existing facilities receive proper attention, we expect that campuses will use their state capital appropriations to renovate, repair, or replace existing space. All requests to add net new space will require the approval of the Chancellor, who may request additional information or justification.**
- **Maintaining the Physical Plant.** While some campuses must plan for new facilities, every campus must ensure that their current physical plant is kept safe, functional, and preserved for future use. Older campuses have a particular challenge. Their needs are recognized through the aged space portion of the debt service allocation. **All request overviews should include a summary of the approach a campus is taking to preserve the investment in their facilities.**

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

V. CAPITAL REQUEST

Each campus that will request Major Renovations funds or reallocate formula funds using the flexibility option will submit a Capital Request. The basic outline of the capital request for FY 2011-2016 is as follows:

- I. Capital Request Overview
This is a one-page overview of an institution's capital request.
- II. Six-Year Capital Program
A table showing all E&G capital projects planned AND the funding sources (state, local, and other sources.) for each.
- III. State Funded Capital Request Summary
A table of capital project requests for state funding by biennium in priority order.
- IV. Proposed Flexibility of State Capital Allocations Summary
A table showing how a campus will exercise the option to reallocate FY 2011-2012 formula amounts.
- V. HEI Capital Project Requests
See Section VI for more details

Campuses are required to submit individual project requests for first biennium projects only. In lieu of submitting individual project requests for the 2nd and 3rd biennia, a campus may use the Capital Request Overview, with a brief description and total cost estimate for each project, to satisfy the reporting requirement.

For items I through IV, campuses will use the spreadsheet forms provided by Regents staff.

Tab I - Capital Request Overview: In general, a six-year capital plan should be derived from a strategic planning process and/or a longer term facilities plan and should describe what capital investments an institution anticipates making during the six-year planning horizon in order to move towards the longer term facilities objectives of the institution. It is important that a capital plan reflect the TOTAL capital investments anticipated in E&G space, regardless of funding source, so that those who plan, those who implement projects, and those who provide funding may all have a thorough and complete view of the institution's objectives and priorities.

This overview is critical to our understanding of your capital goals and direction. It should address the issues raised earlier in this guidance, under the heading "The Continuing Need for Submission of Capital Plans."

Tab II - Six-Year Capital Program: Following the Capital Request Overview is a table which depicts the overall capital program planned by the institution for the six-year planning cycle,

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

FY 2011-2016.

Tab III - State Funded Capital Request Summary: This table requests a listing IN PRIORITY ORDER of project requests for which Major Renovations funds will be requested. The amount requested will equal the net Major Renovations allocation in the Proposed Flexibility table.

Tab IV – Proposed Flexibility of State Capital Allocations: A campus will complete this table if exercising the option to transfer formula allocations between Major Renovations, Basic Renovations, and Instructional and Data Processing Equipment. Regents staff will confirm the amount each campus intends to transfer between these allocations prior to the Chancellor's approval.

DRAFT

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

VI. FILLING IN PROJECT REQUEST FORMS IN HEI

Campuses are required to submit individual project requests electronically through HEI. This feature simplifies the process of submitting, revising, reviewing, and analyzing campus requests for state capital appropriations.

A request form for each project should be submitted for each of the three biennia ***unless you wish to exercise the option to simply list proposed projects for the second and third biennia.*** DO NOT submit project requests for

- a. Reappropriating funds.
- b. Instructional equipment normally acquired through the statewide equipment appropriation.
- c. The Basic Renovations formula amount after additions or deductions that follow the flexibility option.

The project request form is a web based form. If longer project description and/or justification narrative is needed, supplemental sheets may be necessary. For major, high priority projects, supplemental information fully outlining the nature, need and scope of the project request is necessary. Supplements should be referred to on the project request forms, but should be packaged separately with the Capital Planning Request Narratives.

The HEI project request form

A Capital Planning Liaison has been appointed at each public institution. The Capital Planning Liaison is the only person who can determine who may submit the HEI capital projects request form for that institution. A list of Capital Planning Liaisons is available at:

[http://gry.regents.state.oh.us/cgi-pub/hotlink?\\$people_page?@PAGE=%22capital%20planning%20liaison%22](http://gry.regents.state.oh.us/cgi-pub/hotlink?$people_page?@PAGE=%22capital%20planning%20liaison%22)

Definitions and instructions for completing the HEI capital projects request form and a secure link to the request form are located at:

<http://regents.ohio.gov/hei/datasubdoc/financial/cptlplanqfiles.php>

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

APPENDIX A

USE OF BASIC RENOVATIONS GUIDANCE

Basic Renovations money will be recommended and allocated by applying the established formula; some Basic Renovations funds will be allocated to each campus. **No project request form should be submitted for Basic Renovations.**

The intent of the Basic Renovations distribution is to provide funding that addresses common problems for campus buildings, utilities and grounds. These problems include items such as the replacement of failing equipment, roofs, and underground utilities or the refurbishment of roadways, walkways and building envelopes. The construction of new buildings or building additions is not considered a basic renovation³. Movable equipment and furnishings, which are clearly incidental to and an integral part of a renovation project, are eligible for funding. However, basic renovation projects which consist essentially of movable equipment or furnishings are not eligible. Basic Renovations funds may be used for mandated environmental abatement initiatives, (i.e. asbestos abatement and lead paint) or to address disability access for your campus (i.e., Americans with Disabilities Act).

Basic Renovations funds are intended to be used for smaller scope projects when flexibility in determining the most effective and efficient use of the funds is required. Where necessary, projects with similar scope or location may be combined in order to minimize the project oversight and maximize the funds devoted to construction.

A typical basic renovation project is a campus renewal project that addresses: 1) one or more building system components and/or a comprehensive renovation of a small portion of E&G Buildings; or 2) a component of campus infrastructure. Examples of projects typically funded can include (but are not limited to):

Building Systems	Elevators, HVAC, electrical, plumbing, voice and data lines
Health and Safety	Fire monitoring and suppression systems, fume hoods, alarms panels, asbestos, chemical storage
Infrastructure	Tunnels, power distribution systems, steam and chilled water distribution, roads, retaining walls, drainage, grounds, pedestrian and bike ways
Building Envelope	Windows, masonry, walls, foundation, basement slab, ceiling, roof, finishes
Disabled Access	Accessibility for mobility, visual and hearing disabilities

The scope of a basic renovation project can include more than one system component (e.g. HVAC and fume hoods, utility tunnel repairs and enhancing the power distribution system). However, projects should be limited to a small portion of building components, a small portion of a building, or a critical portion of campus infrastructure.

³ These guidelines do not apply to any of the Basic Renovations funds that a campus has allocated for major capital projects or Instructional and Data Processing Equipment.

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

The definition of a small capital project will depend on the unique characteristics of each campus and the proposed project. As a general rule, it is recommended that campuses consider Capital Allocation funds for renovation projects with a total project cost greater than 50% of the building's replacement value or if the project extensively improves campus infrastructure.

Exceptions to the Accepted Uses of Basic Renovations Funds

Section III - The Use of State Capital Appropriations by State Colleges and Universities details how state capital appropriations provided to state colleges and universities through the Board of Regents capital recommendations process shall be used. This section also details the exceptions to the accepted uses of allocated capital funds for Educational and General (E&G) facilities.

Following the exceptions policy outlined in Section III, a campus is allowed, in extraordinary circumstances, to request the use of Basic Renovations funds for auxiliary facilities. Requests will be reviewed by Regents staff on a case-by-case basis and are expected to be rare. The conditions under which such approval may be granted include instances where a campus has experienced a significant and unpredictable loss of auxiliary facilities that threatens campus viability, or for purposes related to public health and safety.

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

APPENDIX B

GENERAL DEFINITIONS

So that persons compiling six-year capital plans at each institution may work with the same standards, definitions of basic terms are set forth below. As is so often the case, definitions cannot be absolutely precise and all encompassing. Nevertheless, these should be helpful.

1. **CAPITAL ASSET**: A physical resource, which includes land, improvements to land, buildings, additions to buildings, and equipment with a minimum expected life of five years. The resource has been capitalized and recorded as a part of an institution's Investment in Plant Fund.
2. **CAPITAL IMPROVEMENT**: The expenditure of funds to acquire or improve a capital asset which will increase the investment in plant value of an institution by an equal or greater sum, and which has a useful life or which will extend the useful life of an existing capital asset five years or more. Capital improvements include the purchase and installation of fixed or movable equipment or the acquisition, construction, reconstruction, renovation or improvement of real property, including land and buildings or appurtenances thereto. While expending current or borrowed monies may make capital improvements, the state capital improvements plan and appropriations consist only of projects to be supported with funds borrowed by the state.
3. **PROPERTY (OR SITE) ACQUISITION**: The acquisition of land and/or structures. A net gain in space used for instructional purposes may result.
4. **PROPERTY DEVELOPMENT**: Clearance and demolition to prepare for construction of structures and improvements to land such as grading, draining, and landscaping.
5. **RENOVATION**: A capital improvement to an existing fixed asset. A renovation project may relate to utilities or to buildings. If space is reconfigured as part of the project, a net addition in assignable space may result, but normally the added space will be minimal. For a renovation project, movable equipment and furnishings may be included only if incidental to the renovation work; a project scope consisting predominantly of furniture or movable equipment replacement is not considered renovation. Constructing a new building or addition is not considered a renovation project.
6. **NEW BUILDING CONSTRUCTION**: Construction of a new, freestanding facility or structure or the addition to an existing facility or structure. New building construction may be the replacement of space, in which case the project is accompanied by a concomitant razing or elimination of space or it may be a net addition of facilities.
7. **SPACE PLANNING GUIDELINES**: Guidelines published in 1974 by the Ohio Board of Regents for two-year or four year institutions. These guidelines are not considered a significant factor in capital budget decision-making. However, campuses may still find them useful in helping assess the need for additional space (See Planning Assumptions). Please

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

contact the Capital Planning office if you need a copy of the guidelines.

8. UTILITIES: Includes water, sanitary and storm drainage, electric, natural gas, telephone, data communications, steam, chilled water lines and related facilities as well as parking lots, parking structures, roadways, sidewalks and exterior lighting systems.

9. MAINTENANCE: An expenditure to repair or preserve a capital facility which does not extend the useful life of the capital asset by five years or more, or which may need to be performed more frequently than once every five years, or which is not capitalized by adding to the institution's Investment in Plant Fund. Capital appropriations may not be used to fund a project, which has as its principal purpose maintenance or repair. A capital project may include some maintenance-type expenditures so long as such expenditures are a small proportion of the total project. For example, repainting a facility is a maintenance task; however, repainting may be included as part of a renovation project so long as it is an incidental feature of the project.

DRAFT

Ohio Board of Regents
SUMMARY Guidelines for Preparing FY 2011-2016 Capital Plans
February 2, 2010

APPENDIX C

DESCRIPTION OF TYPES OF CAPITAL PROJECTS

A variety of capital investment options exist to accomplish educational objectives. Obviously, the lowest cost options are preferred. The classes of capital projects which should be considered are:

1. RENOVATING existing facilities. Renovation (see definition above) may be less costly than building a brand new facility. Costs to renovate a facility should be carefully estimated and compared to costs for constructing a replacement facility. In most cases, it is expected that renovation is more cost effective, yet such is not always the situation. No significant space addition results.
2. REPLACING existing facilities. By definition, replacement is building new with a concomitant offsetting of space by demolition or other means. A replacement may be larger or smaller than the facility being replaced. In either case, the net result is no significant addition to or reduction of space.
3. ADDING TO an existing facility. This implies a net addition of space and a thorough review of needs and program requirements is in order.
4. ADDING NEW facility. Normally even more costly than adding to an existing facility, a new, additional building deserves careful analysis as to needs and costs. A significant addition of space will result.

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